

SECURITIES AND EXCHANGE COMMISSION  
(Release No. 34-96225; File No. SR-BOX-2022-27)

November 3, 2022

Self-Regulatory Organizations; BOX Exchange LLC; Notice of Filing and Immediate Effectiveness of a Proposed Rule Change to Allow Electronic Multi-Leg Orders on BOX

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the “Act”),<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on October 26, 2022, BOX Exchange LLC (the “Exchange”) filed with the Securities and Exchange Commission (the “Commission”) the proposed rule change as described in Items I and II below, which Items have been prepared by the Exchange. The Exchange filed the proposed rule change pursuant to Section 19(b)(3)(A)(iii) of the Act<sup>3</sup> and Rule 19b-4(f)(6) thereunder.<sup>4</sup> The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization’s Statement of the Terms of Substance of the Proposed Rule Change

The Exchange proposes to amend BOX Rule 7240 (Complex Orders) to permit electronic Multi-Leg Orders on BOX. The text of the proposed rule change is available from the principal office of the Exchange, at the Commission’s Public Reference Room and also on the Exchange’s Internet website at <https://rules.boxexchange.com/rulefilings>.

II. Self-Regulatory Organization’s Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of, and basis for, the proposed rule change and discussed any comments it

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<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> 15 U.S.C. 78s(b)(3)(A)(iii).

<sup>4</sup> 17 CFR 240.19b-4(f)(6).

received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

Currently, only Multi-Leg Orders defined as “Complex Orders” trade electronically on BOX.<sup>5</sup> The Exchange now proposes to allow Multi-Leg Orders that are not Complex Orders to trade electronically on BOX. As such, the Exchange proposes BOX Rule 7240(a)(10) which states that the term “Multi-Leg Order” means any order involving the simultaneous purchase and/or sale of two or more different options series in the same underlying security, for the same account, and for the purpose of executing a particular investment strategy, in a ratio that is less than one-to-three (.333) or greater than three-to-one (3.00). The Exchange notes that similar functionality is currently available at another options exchange and on the BOX Trading Floor.<sup>6</sup> Multi-Leg Orders involve the simultaneous purchase and/or sale of two or more different options series in the same underlying security, for the same account, and for the purpose of executing a particular investment strategy.<sup>7</sup> In particular, Multi-Leg Orders are distinguished from Complex

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<sup>5</sup> Multi-Leg Orders and Complex Orders are distinguished by the ratio between each leg of the orders. Complex Orders have a ratio between the legs of equal to or greater than one to three and less than or equal to three to one. Multi-Leg Orders for these purposes consist of all other ratios between the legs.

<sup>6</sup> See Chicago Board of Options Exchange, Inc. (“CBOE”) Rule 1.1 (stating in the definition of Complex Order that “the exchange determines on a class-by-class basis whether complex orders with ratios less than one-to-three (.333) or greater than three-to-one (3.00) (except for Index Combo orders) are eligible for electronic processing”). The Exchange notes that multi-leg Qualified Open Outcry (“QOO”) orders are currently traded on the BOX Trading Floor. See BOX Rule 7600(c).

<sup>7</sup> See BOX Rule 7600(c).

Orders by the ratio between each leg of the orders. Complex Orders have a ratio between the legs of equal to or greater than one-to-three and less than or equal to three-to-one. Multi-Leg Orders consist of strategies with ratios greater than three-to-one or less than one-to-three. Participants may determine that using Multi-Leg Orders is appropriate for their investment and hedging purposes. The Exchange again notes that multi-leg Qualified Open Outcry (“QOO”) Orders may currently be executed on the BOX Trading Floor.<sup>8</sup>

The Exchange now proposes BOX Rule 7240(b)(2)(iii) to detail the trading priority requirements for Multi-Leg Orders. Proposed BOX Rule 7240(b)(2)(iii) provides that each component leg of a Multi-Leg Order will be required to trade (A) at or between the NBBO, and (B) at a price that is at least \$0.01 better than any Public Customer order on the BOX Book.<sup>9</sup> The Exchange notes that the proposed trading priority for Multi-Leg Orders is similar to the priority for multi-leg QOO Orders on the BOX Trading Floor in that the priority rules for both order types are designed to protect Public Customer interest on the BOX Book.<sup>10</sup>

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<sup>8</sup> Each component series of a multi-leg QOO order must be executed at a price that is equal to or better than the NBBO for that series subject to the exceptions of Rule 15010(b). Each component series of a multi-leg QOO order (1) may not trade through any equal or better priced Public Customer bids or offers on the BOX Book for that series or any non-Public Customer bids or offers on the BOX Book for that series that are ranked ahead of or equal to better priced Public Customer bids or offers, and (2) may not trade through any non-Public Customer bids or offers for that series on the BOX Book that are priced better than the proposed execution price. The initiating side of a multi-leg QOO order must execute against equal or better priced interest on the BOX Book as provided by Rules 7600(d) and (h) before executing against the contra-side QOO order. Id.

<sup>9</sup> Proposed BOX Rule 7240(b)(1) states that the minimum increment for bids and offers on Multi-Leg Orders, with a ratio between the legs of less than one-to-three or greater than three-to-one, is \$0.01 and the leg(s) of a Multi-Leg Order may be executed in one cent increments, regardless of the minimum increments otherwise applicable to the individual legs of the order.

<sup>10</sup> See BOX Rule 7600(c). The priority rules of multi-leg QOO Orders and electronic Multi-Leg Orders differ in that a component leg of a multi-leg QOO Order must trade against any Public Customer interest and any non-Public Customer interest ranked equal to or better than the Public Customer interest at the same price as the contra side of the multi-

The following example illustrates the execution of a Multi-Leg Order:

**Example 1 – Execution of a Multi-Leg Order**

BOX Leg A Book: 6.00 – 6.60 (no Public Customer interest)

BOX Leg B Book: 3.00 – 3.30 (no Public Customer interest)

Leg A NBBO: 6.00 – 6.60

Leg B NBBO: 3.00 – 3.30

Strategy: Buy 4 A Calls, Sell 1 B Call

The Exchange receives a Multi-Leg Order for the purchase of the strategy at a net price of 22.80, buying 4 A Calls and selling 1 B Call. Since the order can be executed at a price that is at or between the NBBO for each component series, and at a price that is at least \$0.01 better than any Public Customer order on the BOX Book, the legs of the Multi-Leg Order will be executed at 6.45 for leg A and 3.00 for leg B to achieve the net price of 22.80 (6.45 times 4 equals 25.80 less 3.00 equals 22.80).

**Example 2 – Execution of a Multi-Leg Order**

BOX Leg A Book: 6.00 – 6.60 (no Public Customer interest)

BOX Leg B Book: 3.00 – 3.30 (Public Customer to sell at 3.30)

Leg A NBBO: 6.00 – 6.60

Leg B NBBO: 3.00 – 3.30

Strategy: Buy 4 A Calls, Sell 1 B Call

The Exchange receives a Multi-Leg Order for the purchase of the strategy at a net price of 20.70, buying 4 A Calls and selling 1 B Call. Since there is a Public Customer Order on the BOX Book for Leg B to sell at 3.30 and the Multi-Leg Order can only be purchased at a net price of 20.70 if leg A is purchased at 6.00 (6.00 times 4 equals 24.00) and leg B is sold at 3.30 (24.00 less 20.70 equals 3.30), the Multi-Leg Order will be rejected.

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leg QOO order, whereas each component leg of an electronic Multi-Leg Order must improve any Public Customer order on the BOX Book or the order will be rejected. The proposed electronic Multi-Leg Order priority is designed to be consistent with other electronic order types on BOX. See BOX Rule 7110.

The Exchange proposes further, in proposed Rule 7240(b)(1), that the minimum increment for bids and offers on electronic Multi-Leg Orders will be \$0.01 and each leg of an electronic Multi-Leg Order may be executed in one cent increments, regardless of the minimum increments otherwise applicable to the individual legs of the order.<sup>11</sup> The Exchange notes that electronic trading of Multi-Leg Orders in one cent increments was recently established on another exchange.<sup>12</sup> Further, the Exchange notes that Complex Orders are currently traded electronically in one cent increments on BOX<sup>13</sup> and the proposed change will allow electronic trading of Multi-Leg Orders in one cent increments that merely have a different ratio between the legs as compared to Complex Orders. The Exchange notes it is not proposing to extend the Complex Order priority afforded to Complex Orders to the proposed Multi-Leg Orders.<sup>14</sup> As discussed above, proposed Rule 7240(b)(2)(iii) will require that each component leg execute at or between the NBBO, and at a price that is least \$0.01 better than any Public Customer order on the BOX Book.

The Exchange understands that there may be some concerns that if the ratios of multi-legged strategies, where each component leg is allowed to trade in one cent increments, are too greatly expanded, market participants will, for example, enter multi-legged strategies designed primarily to trade orders in a class in pennies that cannot otherwise execute as simple orders in that class in pennies. The Exchange believes it is highly unlikely that market participants will

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<sup>11</sup> See proposed Rule 7240(b)(1).

<sup>12</sup> See Securities Exchange Act Release No. 94204 (February 9, 2022), 87 FR 8625 (February 15, 2022) (SR-CBOE-2021-046).

<sup>13</sup> See BOX Rule 7240(b)(1).

<sup>14</sup> See BOX Rule 7240(b)(2). The Exchange also notes that it will not generate Legging Orders for Multi-Leg Orders. Legging Orders are only generated on BOX for Complex Orders with two legs and with a ratio of one-to-one. See BOX Rule 7240(c)(1).

submit non-bona-fide trading strategies with larger ratios just to trade in penny increments. Adding a single leg to a larger order just to obtain penny pricing may further reduce execution opportunities for such an order because it may be less likely that sufficient contracts in the appropriate ratio would be available and because it is unlikely that other market participants would be willing to execute against an order that is not a bona-fide trading strategy. Further, the Exchange notes that all option series traded on BOX can currently trade in penny increments in the Price Improvement Period (“PIP”) regardless of the minimum increment otherwise applicable.<sup>15</sup> Lastly, the Exchange notes that pursuant to BOX Rule 3000(a), no Participant shall engage in acts or practices inconsistent with just and equitable principles of trade and non-bona-fide trading strategies may constitute acts or practices inconsistent with just and equitable principles of trade.

The Exchange will announce the implementation of Multi-Leg Orders by Informational Circular at least 48 hours prior to deployment of this functionality, as the Exchange believes that 48 hours of notice is adequate for Participants.

## 2. Statutory Basis

The Exchange believes the proposed rule change is consistent with the Securities Exchange Act of 1934 (the “Act”) and the rules and regulations thereunder applicable to the Exchange and, in particular, the requirements of Section 6(b) of the Act.<sup>16</sup> Specifically, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5)<sup>17</sup> requirements that the rules of an exchange be designed to prevent fraudulent and manipulative acts and

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<sup>15</sup> See BOX Rules 7150(f)(2) and 7150(k).

<sup>16</sup> 15 U.S.C. 78f(b).

<sup>17</sup> 15 U.S.C. 78f(b)(5).

practices, to promote just and equitable principles of trade, to foster cooperation and coordination with persons engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in securities, to remove impediments to and perfect the mechanism of a free and open market and a national market system, and, in general, to protect investors and the public interest. Additionally, the Exchange believes the proposed rule change is consistent with the Section 6(b)(5) requirement that the rules of an exchange not be designed to permit unfair discrimination between customers, issuers, brokers, or dealers.

In particular, the Exchange believes the proposed rule change will remove impediments to and perfect the mechanism of a free and open market and benefit investors because another exchange has established both electronic and open outcry execution of Multi-Leg Orders, regardless of ratio.<sup>18</sup> The Exchange believes that, with the proposed changes discussed herein, market participants will no longer have to trade Multi-Leg Orders electronically on the one other exchange that offers this functionality and could instead select the exchange that is most convenient, offers the best fees, and/or provides better trade execution services. Further, the Exchange believes that market participants may find it more convenient or cost effective to access one exchange over another and may choose to concentrate their volume at a particular exchange in order to maximize the impact of volume-based incentive programs. As such, the Exchange believes that the proposed change removes impediments to and perfects the mechanism of a free and open market and benefits investors.

The Exchange believes that the proposed change perfects the mechanism of a free and open market and protects investors and the public interest by continuing to protect the priority of Public Customers as evidenced by the requirements detailed in proposed Rule 7240(b)(2)(iii). In

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<sup>18</sup> See supra, note 10. [sic]

particular, the execution of each leg of a Multi-Leg Order (i) will be at a price that is at least \$0.01 better than any Public Customer order on the BOX Book; and (ii) will be at or between the NBBO. The Exchange notes that another exchange has established multi-leg electronic trading, regardless of the ratios between the component legs. Therefore, the proposed rules perfect the mechanism of a free and open market and protect investor and the public interest by increasing efficiency and competitive pricing by establishing Multi-Leg Orders on BOX which creates intermarket competition between exchanges.

The Exchange also believes that establishing electronic Multi-Leg Orders benefits investors and provides a means for market participants to execute Multi-Leg Orders outside of the BOX Trading Floor, as multi-leg QOO Orders are currently the only way to execute Multi-Leg Orders on BOX. Participants may find it more convenient and efficient to execute Multi-Leg Orders electronically because they do not require manual handling or the services of a Floor Broker.

Additionally, the Exchange believes that electronic trading of Multi-Leg Orders in one cent increments will remove impediments to and perfect the mechanism of a free and open market and benefit investors, because it will provide Participants with the same pricing flexibility with respect to all of their Multi-Leg Orders on BOX (i.e. each component leg of Complex Orders already trades in one cent increments). Participants may determine that investment and hedging strategies with ratios greater than three-to-one or less than one-to-three are appropriate for their investment purposes, and the Exchange believes it will benefit Participants if they have additional flexibility to price their investment and hedging strategies to achieve their desired investment results. Further, the Exchange believes that the proposed change with respect to the minimum increment requirement may enable Participants to execute their customers' Multi-Leg

Orders at better prices, rather than executing at prices that fit within the confines of a larger increment. The Exchange also believes that allowing the legs of Multi-Leg Orders to trade in one cent increments will help protect investors by allowing Participants to receive better execution prices and improve their ability to execute at or within the NBBO. Further, the Exchange believes that requiring each leg of a Multi-Leg Order to execute at a price that is at least \$0.01 better than any Public Customer order on the BOX Book continues to protect Public Customer interest and thus perfects the mechanism of a free and open market and protects investors and the public interest.

The Exchange believes the proposed changes will increase opportunities for execution of Multi-Leg Orders and lead to tighter spreads on BOX, which will benefit investors. The Exchange also believes that the proposed rule change is designed to not permit unfair discrimination among market participants, as all market participants may trade electronic Multi-Leg Orders, and the priority requirements apply to electronic Multi-Leg Orders of all market participants.

Lastly, the Exchange notes that the proposed changes discussed herein are not novel. The trading of multi-leg QOO orders in one cent increments was recently adopted by BOX.<sup>19</sup> Further, as noted herein, another exchange has established both electronic and open outcry execution of all Multi-Leg Orders, regardless of ratio, and the execution of these Multi-Leg Orders in one cent increments.<sup>20</sup>

B. Self-Regulatory Organization's Statement on Burden on Competition

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<sup>19</sup> See Securities Exchange Act Release No. 95173 (June 28, 2022), 87 FR 39880 (July 5, 2022) (SR-BOX-2022-21).

<sup>20</sup> See supra, note 10. [sic]

The Exchange does not believe the proposed rule change will impose any burden on intramarket competition, as the proposed rule change will apply in the same manner to all Participants. The Exchange notes that all Participants, regardless of account type, will have the ability to submit electronic Multi-Leg Orders with any ratio in the increments permitted by the proposed rule change. Further, the proposed rule change will provide all Participants with an additional means for trading Multi-Leg Orders on BOX. The Exchange believes the proposed rule change does not impose any undue burden on intermarket competition and may, on the contrary, promote competition, as another exchange currently offers the proposed functionality.<sup>21</sup> As discussed herein, trading the legs of Multi-Leg Orders in one cent increments is currently allowed for multi-leg QOO orders on the BOX Trading Floor. Lastly, the Exchange notes that the remaining exchanges are free to adopt similar rules to those proposed here. As such, the Exchange does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received from Members, Participants, or Others

The Exchange has neither solicited nor received comments on the proposed rule change.

III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Because the foregoing proposed rule change does not (a) significantly affect the protection of investors or the public interest; (b) impose any significant burden on competition; and (c) become operative for 30 days from the date on which it was filed, or such shorter time as

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<sup>21</sup> Id. See also CBOE Rules 1.1 and 5.33(f).

the Commission may designate, it has become effective pursuant to Section 19(b)(3)(A) of the Act<sup>22</sup> and Rule 19b-4(f)(6) thereunder.<sup>23</sup>

A proposed rule change filed under Rule 19b-4(f)(6) normally does not become operative prior to 30 days after the date of the filing. However, pursuant to Rule 19b-4(f)(6)(iii),<sup>24</sup> the Commission may designate a shorter time if such action is consistent with the protection of investors and the public interest. The Exchange has asked the Commission to waive the 30-day operative delay. The Exchange states that because multi-leg orders with a ratio less than one-to-three or greater than three-to-one currently may trade electronically in \$0.01 increments on another exchange, waiver of the operative delay will allow the Exchange to immediately offer market participants the choice of another execution venue for the electronic trading of Multi-Leg Orders. The Exchange states that market participants may find it more convenient and efficient to execute Multi-Leg Orders electronically because they do not require manual handling or the services of a Floor Broker. The Exchange further states that the proposal will protect the priority of Public Customer orders by requiring each component leg of an electronically traded Multi-Leg Order to trade at a price that is at least \$0.01 better than any Public Customer order on the BOX Book, in addition to trading at a price that is at or between the NBBO for the series. In addition, the Exchange states that allowing electronically traded Multi-Leg Orders to trade in

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<sup>22</sup> 15 U.S.C. 78s(b)(3)(A).

<sup>23</sup> 17 CFR 240.19b-4(f)(6). In addition, Rule 19b-4(f)(6)(iii) requires a self-regulatory organization to give the Commission written notice of its intent to file the proposed rule change, along with a brief description and text of the proposed rule change, at least five business days prior to the date of filing of the proposed rule change, or such shorter time as designated by the Commission. The Exchange has satisfied this requirement.

<sup>24</sup> 17 CFR 240.19b-4(f)(6)(iii).

\$0.01 increments will provide market participants with additional flexibility in pricing their investment and hedging strategies to achieve their desired investment results.

The Commission finds that waiving the 30-day operative delay is consistent with the protection of investors and the public interest. The proposal will provide investors with an additional venue for electronically trading complex orders with a ratio less than one-to-three or greater than three-to-one. The Commission believes that proposal does not raise new or novel regulatory issues because another options exchange currently provides for the electronic trading of complex orders with a ratio less than one-to-three or greater than three-to-one.<sup>25</sup> The proposal protects the priority of resting Public Customer orders by requiring each component leg of a Multi-Leg Order to be executed at a price that is at least \$0.01 better than any Public Customer Order on the BOX Book.<sup>26</sup> This requirement is consistent with the rules of another options exchange.<sup>27</sup> In addition, as discussed above, the Exchange states that it is highly unlikely that a market participant would submit a complex order with a ratio less than one-to-three or greater than three-to-one that is not a bona fide trading strategy solely for the purpose of trading in \$0.01 increments. The Exchange believes that there would be reduced execution opportunities for such an order because it is unlikely that other market participants would be willing to trade against an

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<sup>25</sup> See Securities Exchange Act Release No. 94204 (February 9, 2022), 87 FR 8625 (February 15, 2022) (order approving File No. SR-CBOE-2021-046). See also Cboe Rules 1.1 (stating, in the definition of complex order, that “the Exchange determines on a class-by-class basis whether complex orders with ratios less than one-to-three (.333) or greater than three-to-one (3.00) (except for Index Combo orders) are eligible for electronic processing”).

<sup>26</sup> See proposed Exchange Rule 7240(b)(2)(iii).

<sup>27</sup> See Cboe Rule 5.33(f)(2)(iv)(b) (stating that if a complex order has a ratio less than one-to-three (.333) or greater than three-to-one (3.00), the component(s) of the complex order for the leg(s) with a Priority Customer order at the BBO must execute at a price that improves the price of that Priority Customer order(s) on the Simple Book by at least one minimum increment).

order that is not a bona-fide trading strategy. In addition, the Exchange states that all option series may trade in \$0.01 increments in the PIP auction.<sup>28</sup> The Exchange further states that submitting an order that is not a bona-fide trading strategy may constitute an act or practice inconsistent with just and equitable principles of trade, in violation of Exchange Rule 3000(a). For these reasons, the Commission designates the proposal operative upon filing.<sup>29</sup>

At any time within 60 days of the filing of the proposed rule change, the Commission summarily may temporarily suspend such rule change if it appears to the Commission that such action is necessary or appropriate in the public interest, for the protection of investors, or otherwise in furtherance of the purposes of the Act. If the Commission takes such action, the Commission shall institute proceedings to determine whether the proposed rule should be approved or disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Comments may be submitted by any of the following methods:

##### Electronic Comments:

- Use the Commission's Internet comment form (<http://www.sec.gov/rules/sro.shtml>); or
- Send an e-mail to [rule-comments@sec.gov](mailto:rule-comments@sec.gov). Please include File Number SR-BOX-2022-27.

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<sup>28</sup> See BOX Rules 7150(f)(2) and 7150(k).

<sup>29</sup> For purposes only of accelerating the operative date of this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

Paper Comments:

- Send paper comments in triplicate to Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090.

All submissions should refer to File Number SR-BOX-2022-27. This file number should be included on the subject line if e-mail is used. To help the Commission process and review your comments more efficiently, please use only one method. The Commission will post all comments on the Commission's Internet website (<http://www.sec.gov/rules/sro.shtml>). Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for website viewing and printing in the Commission's Public Reference Room, 100 F Street, NE, Washington, DC 20549, on official business days between the hours of 10:00 a.m. and 3:00 p.m. Copies of the filing also will be available for inspection and copying at the principal office of the Exchange. All comments received will be posted without change. Persons submitting comments are cautioned that we do not redact or edit personal identifying information from comment submissions. You should submit only information that

you wish to make available publicly. All submissions should refer to File Number SR-BOX-2022-27, and should be submitted on or before [insert date 21 days from publication in the Federal Register].

For the Commission, by the Division of Trading and Markets, pursuant to delegated authority.<sup>30</sup>

J. Matthew DeLesDernier,  
Deputy Secretary.

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<sup>30</sup> 17 CFR 200.30-3(a)(12).